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C O N F I D E N T I A L SECTION 01 OF 02 ASTANA 000753

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SUBJECT: KAZAKHSTAN TO BUILD COAL-FIRED POWER PLANT IN THE SOUTH?

REF: A. 06 ALMATY 602

[1](#)B. 06 ASTANA 899

Classified By: Political-Economic Chief Deborah Mennuti,
reasons 1.5(b) and (d).

[11.](#) (C) Summary: Spurred by recent analysis forecasting a significant electricity deficit in Southern Kazakhstan by 2015, the Government of Kazakhstan (GOK) has reportedly decided to build a 2000 MW coal-fired plant at the southern tip of Lake Balkhash. Energy Ministry sources report that President Nazarbayev's mention of the project in his February 28 Annual Address confirmed that the GOK will follow the recommendations of a soon-to-be-released Samruk (the national holding company for state-owned assets) study, which ranked a Balkhash coal plant ahead of other options -- including the construction of a nuclear power plant at the same site -- for expansion of the country's generation capacity. On March 7, newly-appointed Energy Vice Minister Satkaliyev told Energy Officer that the Balkhash plant, along with a constellation of planned hydro projects, will greatly enhance Kazakhstan's potential electricity exports to the South, and asked to be included in future discussions concerning regional electricity integration. While the GOK is still pursuing the idea of constructing a nuclear plant in Aktau (Ref A), the project may have suffered a setback with Prime Minister Akhmetov's departure from office and funding for a pre-feasibility study reportedly still awaiting government budgetary approval. End summary.

Nazarbayev Tips Scales Toward Balkhash Coal Plant

[12.](#) (C) Recently-appointed Vice Minister of Energy and Mineral Resources Almasadam Satkaliyev told Energy Officer on March 7 that, in his February 28 annual address to the Nation, President Nazarbayev called for the construction of a coal-fired combined heat-and-power (CHP) plant at the southern tip of Lake Balkhash. (Satkaliyev explained that, although the word "Balkhash" had not entered into the official transcripts of the speech, Nazarbayev's words had been unmistakable.) Nazarbayev's "instruction," Satkaliyev said, anticipated the results of a soon-to-be-released \$2 million, Samruk-sponsored pre-feasibility study which he, Satkaliyev, had overseen in his previous job as head of the "KEGOC" (electricity transmission) group within Samruk. The Samruk study, he explained, had ranked three alternative projects: the Balkhash coal plant; a nuclear plant at the same location; and increased coal-fired capacity in Northeast

Kazakhstan (achieved either by renovation of existing facilities or new construction), linked to the South by means of an additional (third) high-voltage transmission line.

Coal Instead of Nuclear: Simple Economics...or More?

¶ 13. (C) On March 16, Yevgeniy Ryaskov, Deputy Director of the Energy Ministry's Office for Management of State Assets, provided Energy Officer with additional insight into why the GOK favors the construction of a thermal plant in Balkhash rather than a nuclear plant. The Kazakhstan Institute of Energy, Ryaskov explained, recently completed an influential study suggesting that Kazakhstan would face an electricity deficit in the South by 2015. The study, he added, reversed the Institute's previous research, which had suggested that supply would keep pace with demand through 2025. The Balkash CHP, Ryaskov continued, could be built by 2015 (in Satkaliyev's estimation, the plant will generate 500 MW by 2012 and 2000 MW by 2015), while construction of a nuclear plant would take a decade or more. Thus, Rysaskov concluded, it was logical to favor a coal plant over a nuclear one.

¶ 14. (C) Satkaliyev hinted that former Prime Minister Daniyal Akmetov's departure from office had contributed to a fundamental shift among Kazakhstani decision-makers toward coal power and away from nuclear power. In December, while still at Samruk, Satkaliyev told Energy Officer that "there are no fans of nuclear energy at Samruk," opining then that Kazakhstan's future lay with "clean coal" technology. Asked in March what had become of Akhmetov's well-publicized drive to advance the nuclear agenda, Satkaliyev replied that Akhmetov's program had been "stopped in the pre-feasibility

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stage" of the GOK budgetary process. The GOK was still considering financing a pre-feasibility study for the construction of two 300 MW nuclear-powered turbines in Aktau, he explained, but the project was "not very advanced or very certain." (As reported in Ref B, the GOK seriously considered moving KazAtomProm, the national atomic energy company, under Samruk management in late 2006. Samruk's current head of the "KEGOC" group, Esbergen Abitayev, hinted to Energy Officer that the move -- which KazAtomProm had rebuffed -- had been, in effect, a hostile takeover attempt by Samruk.)

¶ 15. (C) Ryaskov, by contrast, defended the economic feasibility of a nuclear power station sited in Aktau. Given the prices Kazakhstan currently receives for its natural gas on the Russian border (\$145 per thousand cubic meters, by his estimation), he explained, it would be cheaper, in the long run, to build and operate a nuclear plant in Aktau rather than continue to generate electricity from gas.

Balkash CHP to Facilitate Kazakhstani Electricity Exports?

¶ 16. (C) Satkaliyev told Energy Officer that the forecasts of an electricity deficit in the South had been incorporated into a new "action plan" for the development of the electricity sector to the year 2015, which was currently in the GOK approval process. Satkaliyev explained that the document -- which, according to press reports, calls for \$15 billion in near-term electricity investments -- envisages a "constellation" of hydroelectricity projects which, anchored by the Balkash CHP, will eventually create an exportable surplus of electricity in Kazakhstan's South. Reminded of the USG's initiative to promote regional electricity trade and integration, Satkaliyev responded enthusiastically, stating that the Balkash project made such a regional outlook necessary for the first time. Satkaliyev added that he personally would like to participate in future discussions of regional electricity integration.

¶ 17. (C) Comment: Satkaliyev is the first senior Energy

Ministry official we have met who appears to grasp the potential for Kazakhstan of a regional approach to electricity generation. While his track record is still short, Satkaliyev's reputation as a market-oriented, progressive thinker (and, it is rumored, a Timur Kulibayev protege) gives hope that he may bring greater reliance on market principles to Kazakhstan's energy policy and be a reliable, useful interlocutor on regional issues. End comment.

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